

2 Differences and impacts of global sourcing

Doing business abroad is totally different from doing business merely in one's own country. Figure 3 gives an overview of things that can be influenced and affected when a company decides to go international. Culture, infrastructure, education, trade barriers, law, wages, and transportation are only some examples.

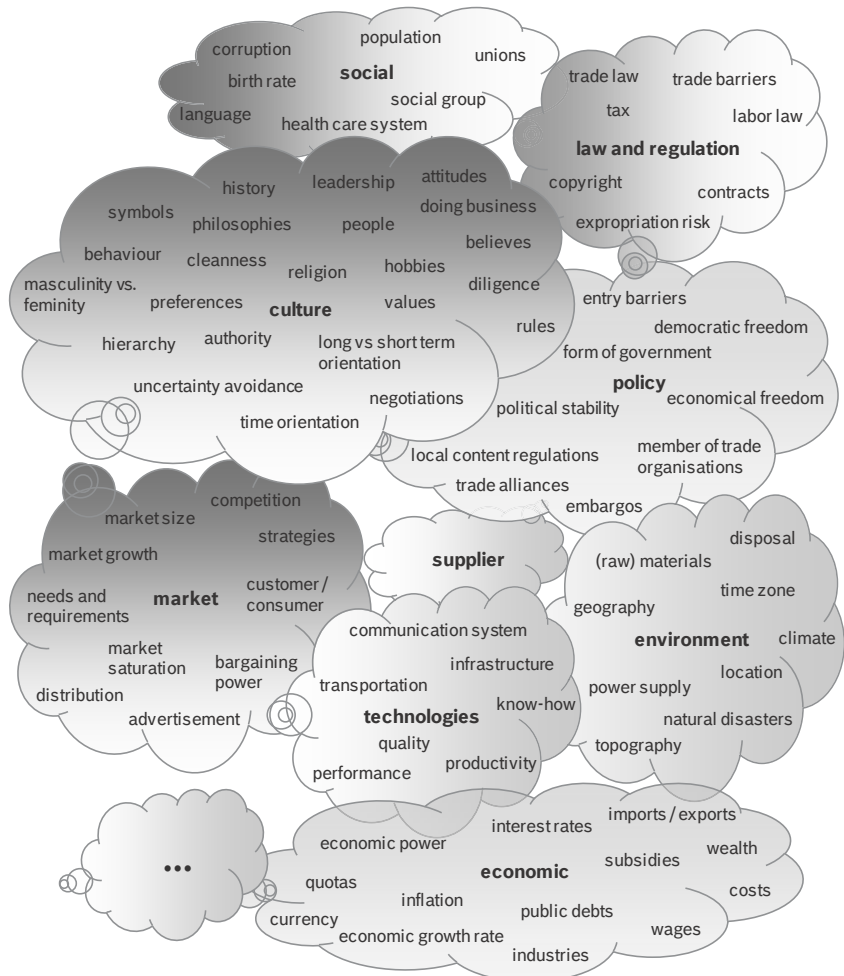


Figure 3: Differences of doing business abroad in comparison to a mere business at home²⁵

²⁵ Self-established figure, based on Krüger, M., 2010, Part 1, p.11; Krokowski, W. & Sander, E., 2009, pp.41ff.; Kerckhoff, G., 2005, pp.68ff.; Arnolds, H. et al., 2010, pp.211ff.; Koppelman, U., 1997, p.118

Judging from the information one can gather from figure 3, it is obvious that companies are forced to face new challenges while doing business abroad, which then might influence their performance. In short, when doing business abroad, companies might have to change completely their way of working. The most crucial impacts of sourcing in low cost countries on a company's performance are outlined in more detail in figure 4, based on Lockström's research.

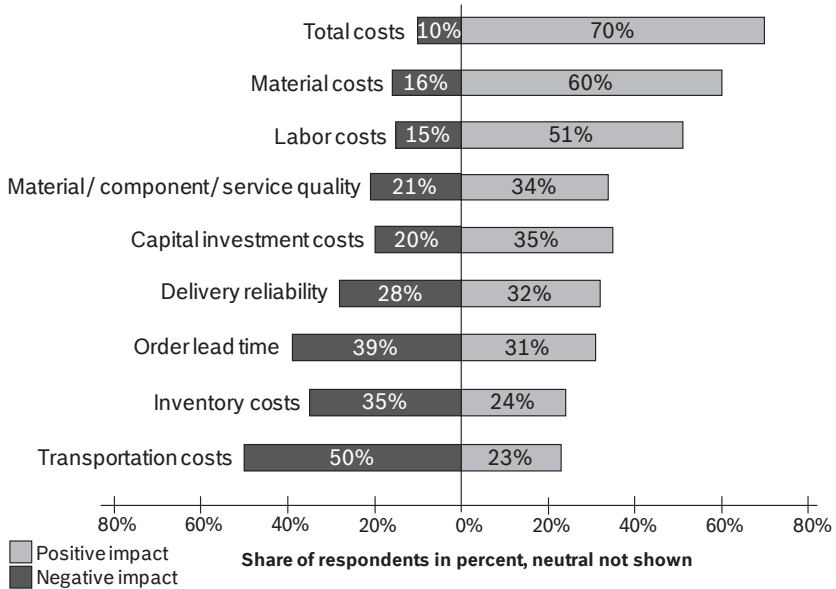


Figure 4: Impact of low cost country sourcing on a company's business ²⁶

According to Lockström, 70% of the interviewed companies get a positive impact on total costs, compared to 10% of companies which name negative results.²⁷ Lower material and labor costs are the major values which influence the amount of total costs in a positive way. However, an important finding is that also 15 to 16% name negative impacts with regard to these two factors. Labor costs should be kept especially in mind, since these are most often the main drivers for a company to go international. Positive impacts on quality, on capital investment costs, as well as on delivery reliability are pointed out by more than 30% of the surveyed companies. Only about 10% fewer respondents have a negative experience as far as the first two mentioned factors are concerned and only 4% less on delivery reliability. As expected, more companies have bad results with regard to order lead time, inventory costs, and transportation costs than companies with positive results.

²⁶ Lockström, M., 2007, p. 143

²⁷ Lockström, M., 2007, pp. 142ff.

This is mostly due to larger transportation distances and supply chains with higher complexity.

The upper part of the chart indicates clearly that the main positive impacts, namely material and labor costs can be theoretically achieved by every company, simply because of its presence in a low cost country. In contrary to that, the more negative impacts on factors such as delivery reliability, order lead time, inventory costs, and transportation costs at the bottom of the chart depend on the capabilities of the respective company which opted for sourcing. That is one reason why a good supply chain management has to be established when sourcing internationally.

In a study independent from that of Lockström, the logistics department at the Technical University Berlin in collaboration with the National University of Singapore did some research for the Federal Association Logistics (Bundesvereinigung Logistik BVL) on emerging markets (see figure below).

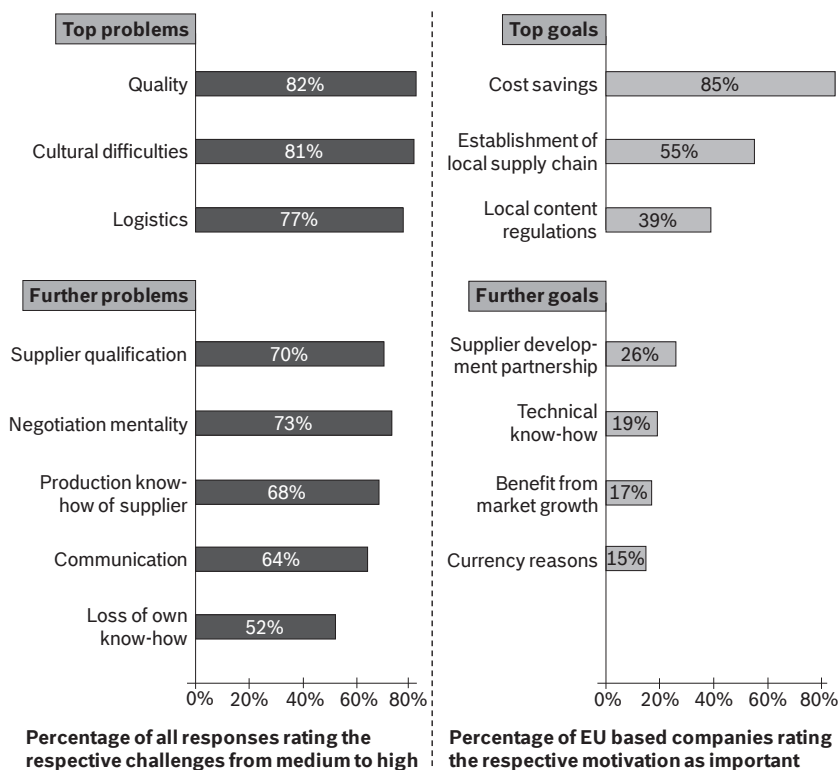


Figure 5: Problems and goals on emerging markets²⁸

²⁸ Krokowski, W. & Sander, E., 2009, pp.13ff.

It is obvious that top problems in sourcing globally are quality, cultural difficulties, as well as logistics. In comparison to Lockström's findings, quality and culture are here considered to be much more crucial. Both surveys, however, consider successful managing logistic to be the key issue. Furthermore, the statistics indicate that 85% of the sourcing companies are seeing cost savings as the most important motivation for going international, followed by establishing local supply chains, and the fulfillment of local content regulations.

Despite all possible benefits, one always has to keep in mind that global sourcing projects are highly complex. According to Gartner, two-thirds of all sourcing projects in Europe are considered to have failed.²⁹ One ought not to judge rashly, since successful companies have made the experience that it needs at least one to two years to successfully finish the qualification of a supplier.³⁰ Trying to reduce this time, however, increases the likeability of possible risks. Therefore, global sourcing has to be well prepared and hence should be part of a long term strategic decision of a company in order to achieve the wanted benefits. Lockström describes the problems of international sourcing as follows:

„When investigating problems, many difficulties may arise. Firstly, many factors involved are not quantitative (i.e. cannot be represented by numbers). Secondly, many uncertainties make the problem impossible to reduce. Thus, traditional means such as statistical research is usually not feasible.“³¹

This statement brings us to the question of how to find “the right” strategy, which can be seen as the best and most effective approach to, on the one hand, avoid problems as much as possible and, on the other hand, achieve as many benefits as possible. This issue is the fundamental question of this scientific paper and it will hence be discussed in a more detailed way in the next chapter.

²⁹ Nicklisch, G., 2006, p.16

³⁰ Krokowski, W. & Sander, E., 2009, p. 156

³¹ Lockström, M., 2007, p.55

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